

Message Text

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PAGE 01 STATE 212286

54

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FM SECSTATE WASHDC

TO AMEMBASSY CAIRO PRIORITY

C O N F I D E N T I A L STATE 212286

E.O. 11652: GDS

TAGS: EAID, USEGJC

SUBJECT: DISCUSSION OF EGYPTIAN AID CONSULTATIVE GROUP

1. UNDER SECRETARY ROBINSON AND DEPARTMENT OFFICERS DISCUSSED WITH ECONOMICS MINISTER SHAFEI AND UNDER SECRETARY EL NAZAR THURSDAY OUTLOOK FOR INTERNATIONAL FINANCIAL SUPPORT OF EGYPTIAN ECONOMY AND OF EGYPTIAN DEVELOPMENT PROGRAM IN 1976 AND BEYOND. SHAFEI ON WEDNESDAY HAD URGED MCNAMARA AND BENJENK TO ESTABLISH PERMANENT IBRD OFFICE IN CAIRO. BENJENK SUBSEQUENTLY TOLD DEPARTMENT OFFICER THIS MIGHT BE NECESSARY IF GOE AND PRINCIPAL AID DONORS WISHED IBRD TO ESTABLISH AND CHAIR EGYPTIAN AID CONSULTATIVE GROUP. IN LIGHT OF THESE SHAFEI-IBRD DISCUSSIONS AND USG'S DIFFICULTY IN ACTING AS MIDWIFE OF EMERGENCY AID TO EGYPT, DEPARTMENT OFFICER ASKED SHAFEI WHETHER GOE WOULD FAVOR FORMATION OF SUCH INTERNATIONAL AID GROUP, WITH IBRD AND IMF STAFF SUPPORT
CONFIDENTIAL

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PAGE 02 STATE 212286

AND IBRD LEADERSHIP, FOR PROMOTION AND COORDINATION OF

BOTH PROJECT AND NON-PROJECT AID.

2. SHAFEI WELCOMED IDEA AND SAID HE WOULD CONSULT WITH OTHER INTERESTED MINISTERS ON RETURN TO CAIRO.

3. BENJENK ALSO REPORTED THAT SHAFEI GAVE MCNAMARA IMPRESSIVE REPORT ON GOE'S ACTIONS IN IMPLEMENTING MANY OF COMMITMENTS CONTAINED IN SALIM-MCNAMARA LETTER. HE BELIEVED, THEREFORE, THAT BANK WOULD RESPOND AFFIRMATIVELY TO GOE REQUEST FOR CONSULTATIVE GROUP.

4. CONFIDENTIAL INFORMANT ALSO REPORTED THAT IMF HAS AGREED TO SEND MISSION TO CAIRO SHORTLY WITH INSTRUCTIONS TO NEGOTIATE DRAWING TOTALLING MORE THAN \$100 MILLION, WITHOUT INSISTING ON IMMEDIATE DEVALUATION. THIS IMF POSITION WOULD PRESUMABLY ELIMINATE GOE'S CONCERN ABOUT ACTIVE IMF PARTICIPATION IN CONSULTATIVE GROUP.

5. SHAFEI'S DELEGATION FORESEES CONTINUING NEED FOR LARGE-SCALE NON-PROJECT SUPPORT AS WELL AS DEVELOPMENT AID REQUIREMENTS IN 1976 AND 1977. PROSPECTS FOR SECOND ROUND OF HAT-PASSING TO RAISE GENERAL MAINTENANCE AID IN 1976 ARE NOT PROMISING IN VIEW OF CONTINUING RESISTANCE TO THIS TYPE OF AID BY MOST OECD COUNTRIES, THEIR SKEPTICISM RE USG AUTHENTICATION OF EGYPTIAN REQUIREMENTS, AND THE POSSIBILITY THAT ARAB DONORS WILL BECOME MORE RESISTANT TO FAMILIAR EGYPTIAN APPEALS. IN THESE CIRCUMSTANCES, ANOTHER USG EFFORT IN 1976 TO ACT AS INTERMEDIARY FOR GOE WOULD RISK SEVERE DISAPPOINTMENT.

6. EGYPT'S INTERESTS IN RAISING ESSENTIAL AID, AND INTERESTS OF DONORS IN EFFECTING REDUCTION OF EGYPTIAN DEPENDENCE ON NON-PROJECT AID, WOULD APPEAR TO BE BETTER SERVED BY ARRANGING FOR CONSOLIDATED CONSIDERATION OF BOTH PROJECT AND NON-PROJECT REQUIREMENTS AND PLANS IN IBRD-LED GROUP WITH IMF PARTICIPATION. WITHOUT PRESSING THIS VIEW ON GOE, EMBASSY IS REQUESTED TO ENCOURAGE POSITIVE RESPONSE INDICATED BY SHAFEI WHEN HE OR OTHERS RAISE SUBJECT. ROBINSON
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PAGE 03 STATE 212286

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